AUDITOR GENERAL
Alberta

Report of the Auditor General of Alberta

March 2012

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Mr. Lindsay Blackett, MLA
Chair
Standing Committee on Legislative Offices

I am honoured to send my *Report of the Auditor General of Alberta—March 2012* to Members of the Legislative Assembly, as required by section 20(1) of the *Auditor General Act*.

[Original signed by Merwan N. Saher]

Merwan N. Saher, FCA
Auditor General

Edmonton, Alberta
March 7, 2012

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AUDITOR GENERAL
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Summary

Report of the Auditor General of Alberta—March 2012

Report on Advanced Education and Technology—Post-secondary Institutions

This report is based on the findings from our most recent financial statements audits of Grant MacEwan University, Mount Royal University, Northern Alberta Institute of Technology, Southern Alberta Institute of Technology and all public colleges. Our *November 2011 Report* (page 63) included the results from our audits of Athabasca University, University of Alberta, University of Calgary and University of Lethbridge.

All 21 public post-secondary institutions spend $4.5 billion annually to educate Albertans and help build a knowledge-based economy. When institutions lack proper financial controls, they may not achieve their goals cost-effectively, in which case Albertans would not be getting proper value for their money.

Lack of basic financial controls in some institutions—Northern Lakes College, Grant MacEwan University, Alberta College of Art and Design, NorQuest College and Olds College all need to significantly improve their processes and internal controls. In this report's individual sections and in its list of outstanding recommendations, we explain these control deficiencies. Many of our recommendations relate to basic internal controls in areas such as financial reporting, enterprise risk management and endowment management.

The control problems at these institutions often result in significant inefficiencies, can impair the quality of information that management and the board use in decision making and increase the risk of fraud not being detected. These problems also result in increased audit efforts that could be better used.

Institutions with effective control environments—The University of Alberta, Northern Alberta Institute of Technology, Southern Alberta Institute of Technology and University of Lethbridge have effective control environments. Grande Prairie Regional College has significantly improved its processes and internal controls over the last two years and now has an effective control environment. Its board, audit committee and management recognized the need to improve its processes and internal controls. All of these institutions are in a stronger position to continuously adapt and improve their processes and controls for changes in business, regulatory requirements, accounting standards and fiscal pressures.

We reported in our *October 2010 Report* (page 114) and our *November 2011 Report* (page 69) that the University of Calgary has been making satisfactory progress in improving its overall control environment. It has been working on a multi-year project to improve its control environment. We are reviewing these changes to determine if the university dealt with our October 2008 (no. 21, page 213) recommendation to improve the effectiveness of its control environment, and will report on this in a future report.

Who is responsible?

The Minister of Advanced Education and Technology and the Lieutenant Governor in Council appoint a board of governors to govern each institution. The Minister, with the Department's support, is responsible for ensuring that boards govern their institutions properly.

Boards of each institution are responsible for making sure that management implement and maintain effective internal controls. To do their job, boards need timely and accurate periodic and year-end information—financial and non-financial.

What boards and the Department must do

Boards and audit committees at Northern Lakes College, Grant MacEwan University, Alberta College of Art and Design, NorQuest College and Olds College must hold management accountable for:

- implementing and maintaining effective processes and internal controls
- reporting on this to the board and audit committee
- hiring and retaining sufficient, qualified and trained staff to run the institution cost-effectively

Boards of other institutions should do the same. Effective control environments include clear policies; well-designed processes and controls to implement and monitor compliance with policies; enough qualified and trained staff; and secure information systems to provide timely and accurate financial and non-financial information to manage and govern the institution. Boards should require management to report regularly that controls are working effectively. Institutions should follow the good practices and recommendations in our prior reports, to improve their internal controls.

The Minister must hold boards accountable. In turn, boards must hold management accountable. If boards and their audit committees do not ensure that their institution solves these problems in a reasonable time, management cannot cost-effectively manage the institution or the risks it faces in trying to achieve its goals.

Internal controls—A report card

To effectively govern, boards need accurate and timely financial information. To effectively manage, management also needs this. We evaluated the following key indicators of effective financial processes and internal controls the:

- time it took institutions to prepare complete and accurate year-end financial statements
- quality and number of draft financial statements we received
- number of errors we identified in our audit
- number and type of recommendations made in our management letters and public reports

Internal Controls—A report card

◆	Indicates we have concluded that significant improvements are needed.
	Indicates improvement is required, but not to the same extent as the red items. Yellow items may or may not be associated with a management letter recommendation. They are more representative of where an institution can improve as opposed to something that requires significant, immediate attention.
●	Indicates we have not identified significant weaknesses in the control environment.

Institution[1]	Expenses (millions)	Financial statements preparation		Outstanding recommendations
		Accuracy	Timeliness	
Northern Lakes College	36	◆	◆	◆
Grant MacEwan University	208	◆	◆	◆
Alberta College of Art and Design	21	◆	◆	◆
NorQuest College	74	◆	◆	◆
Olds College	51	◆		◆
University of Calgary	996		●	◆
Portage College	33			
Athabasca University	128		●	
Keyano College	78	●		
Lakeland College	71			●
Lethbridge College	80			●
Mount Royal University	210			●
Bow Valley College	69	●		●
Medicine Hat College	51	●	●	
Red Deer College	93	●		●
University of Alberta	1,569	●	●	
Grande Prairie Regional College	69	●	●	●
Northern Alberta Institute of Technology	292	●	●	●
Southern Alberta Institute of Technology	272	●	●	●
University of Lethbridge	175	●	●	●

[1] The list does not include The Banff Centre, which we do not audit. Its expenses in 2011 were $54 million.

Acknowledgement of Weaknessess

We are satisfied that the various management groups and their respective audit committees, and the Minister himself, have acknowledged the problems they face and have begun remedial action.

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Recommendations to Individual Institutions

Report of the Auditor General of Alberta—March 2012

Northern Lakes College

In our *November 2011 Report* (page 63), we reported that Northern Lakes College could not demonstrate that it had an effective control environment. At the end of January 2012—19 months after its June 30, 2010 year-end—the college had still not completed its 2010 and 2011 financial statements.

We started the audit for the June 30, 2010 year-end in September 2010. We found material errors in the draft financial statements and informed management and the board of the problems and errors. Management had significant difficulty preparing draft financial statements. As a result, we withdrew our staff from the audit until management could assure us that they had reviewed and were comfortable with the completeness and accuracy of their financial statements and supporting documents. We also asked management to resolve the errors we identified. We discussed with the board the problems and actions needed to improve the control environment. As a result, the college formed an audit committee similar to those of other institutions.

The college told us in February 2011 that it had corrected the errors. We found material errors that were still not corrected, and told management and the board chair. The director of finance left the college in September 2011, which further delayed the completion of the financial statements. In November 2011, the college hired an accounting firm to compile its financial statements and supporting schedules. The firm will also prepare the college's June 2011 financial statements. Due to its remote location, the college had trouble recruiting a new director of finance. A new director started in February 2012.

In our *November 2011 Report* (page 64), we said that the Department of Advanced Education and Technology and the Minister, who appoints the board, must hold the board accountable for improving the college's control environment. The Department then hired a consultant to recommend steps for the college to improve its governance and internal control environment.

Once we receive an assertion from management that the financial statements are complete and accurate, we will do our audits.

Grant MacEwan University

In our *April 2009 Report* (page 81), we reported that the university had an ineffective control environment for an institution of its size. We said that it needed enough skilled staff, and documented policies and procedures for business processes and controls.

In response, the university started several initiatives to improve its control environment: updating policies; hiring four new assistant deans to focus on finance, human resources and budget processes in faculties; and implementing a new enterprise resource planning system.

University not ready for April 2011 interim audit

During our interim audit, we identified control weaknessess that prevented us from completing our planned assessment and testing. In April 2011, we told the university's vice-president of finance and administration and the executive director of financial services of these control weaknesses. The university started working to resolve the weaknesses and errors, which related mainly to its capital assets and project costing.

By August 2011, the university had still not finished the work needed on the capital assets and project costing. By then, we had identified many other errors in the draft financial statements and working papers in areas such as payroll and accounts payable. Management's review had not found these errors.

At the end of August 2011, we withdrew from the audit until management could assure us that they had resolved the problems and were comfortable with the completeness and accuracy of the financial statements and supporting working papers. Management confirmed to us, at the end of September 2011, that the university was ready for us to resume the audit. We still found several significant errors that management later adjusted at our request. We completed our audit and, despite the difficulties, we ultimately were able to issue an unqualified audit opinion on the university's financial statements.

New system did not cause the original underlying problems

This year the university prepared its financial statements using a new system for the first time. While the new system changed the university's processes, it had not caused the problems or delays in preparing statements. Those problems occurred because the university did not:

- implement effective enterprise risk management systems and adequate risk-mitigation strategies with the new system
- develop well-designed business processes and controls before implementing the new system—as we have reported it should, over the last three years
- train staff sufficiently on its processes and controls
- monitor staff compliance with its policies, processes and controls

Chronic restating of financial statements

It is unusual for a public post-secondary institution to have to restate its financial statements, as was the case here. Grant MacEwan University did so six times in the last 11 years, each time for significant accounting errors. The restatements in the last two years included 11 significant errors.

These facts—and the difficulty producing financial statements this year—indicate underlying problems in the university's control environment. Until it resolves these problems and implements our two new and six outstanding recommendations (Appendix B, page 43), the university cannot show that it has an effective control environment.

University's current plan

Since our audit, the university's new president hired two consulting firms to help improve its financial reporting processes and systems. Management also told us they have started performing monthly procedures to ensure the accuracy of financial information. They also plan to prepare complete financial statements and working papers for its third quarter, to assess their preparedness for year-end.

Improve financial business processes

Background

In our *April 2008 Report* (page 187), we stated that Grant MacEwan University had implemented the recommendation in our *October 2001 Report* (no. 39—page 216), as it had produced timely financial statements. However, we also highlighted several other areas where it should improve the effectiveness and efficiency of its processes and controls. To do so, the university started a project to improve its financial processes, systems and personnel. We also said that we would assess the results in future audits, when we assess the adequacy and test the operating effectiveness of the university's processes and controls.

The June 30, 2011 year-end was the first year the university prepared its financial statements with the new system. It implemented the finance module on July 1, 2010; the human resource and capital asset modules on January 1, 2011; and the student module on April 1, 2011. The university recorded transactions for payroll and students in the old system and then converted the data to the new system at those dates.

Recommendation: improve financial business processes

1 RECOMMENDATION

We recommend that Grant MacEwan University improve its financial business processes by:

- establishing clearly documented processes and controls
- developing clear roles and responsibilities and communicating these to staff
- training staff on the policies, processes and controls relating to their roles and responsibilities
- implementing monitoring and review processes to ensure staff follow the policies, processes and controls

Criteria: the standards for our audit

The university should have effective processes to produce timely, relevant and accurate period and year-end financial information, financial statements and working papers. This requires sufficiently skilled and trained staff; clearly documented policies, processes and controls; clearly documented roles and responsibilities; and effective monitoring and review to ensure staff follow the policies, processes and controls.

Our audit findings

Key findings

- Financial business processes are inadequate
- Business transformation training is insufficient
- Monitoring processes are not implemented
- Processes for timely financial reporting are not all in place and are not always followed where they exist

The university continued to implement the remaining modules of its enterprise resource planning system. From a technology perspective, this implementation was effective (*October 2010 Report*, page 29). We reported that the university accurately converted the data from the old to the new system (*October 2010 Report*, page 30). It developed an information technology management group to help identify and coordinate system improvements. This group is supported by staff who helped implement the new system.

However, the university had still not implemented well-designed processes and controls needed to ensure timely and accurate financial results, as we have continued to report since our *April 2010 Report* (page 173). Once it implements such controls, the university must still train staff and monitor whether staff follow these controls.

Financial business processes are inadequate

The university does not have well-designed and effective processes and controls to support the new system. We reported on the university's inadequate financial controls in our *April 2009 Report* (page 81), *April 2010 Report* (page 173), *October 2010 Report* (page 29) and *April 2011 Report* (page 66). The university improved policies over the past two years, but did not support these policies with sufficient training or adequate business processes and controls. Weak financial controls led to many processing errors and incomplete financial records throughout the year.

Reconciliations between sub-ledgers and the general ledger were not always prepared, reviewed and cleared properly. We found incomplete reconciliations for bank accounts, accounts payable and student receivables. For example, during our interim audit in April 2011, we found that no one had prepared a reconciliation between the accounts payable sub-ledger and the general ledger. We found a material difference between the balances in the two ledgers. As a result, management and the audit and finance committee relied on inaccurate periodic financial information for most of the year.

Business transformation training is insufficient

The university did not provide sufficient training on manual business processes and controls for the new system. It provided training on using the new system, but the training proved inadequate. For example, staff processed certain journal entries into the accounts payable control accounts, resulting in errors and leading to differences on the reconciliations that the university had to correct later. The majority of staff we interviewed said that the transfer of knowledge from the specialists involved in converting to PeopleSoft was initially inadequate, particularly on the reporting capabilities of the new system.

Monitoring processes are not implemented

The university did not implement effective monitoring processes to ensure staff followed its policies, processes and controls. For example, the university did not review or reconcile the payroll benefit accrual accounts for 2010–2011. The pension payable account showed a receivable balance of about $855,000 on June 30, 2011. Payable accounts for Canada Pension Plan and Employment Insurance remittances had receivable balances. At our request, the university reviewed these accounts and found it had understated liability and expense by $1.4 million. CPP and EI payroll liability of $1.3 million for three months was incorrectly recorded in the income tax liability account.

Processes for timely financial reporting are not in place and not followed where they exist

The university lacks:

- effective processes, controls and monitoring to meet period and year-end timelines
- clear roles and responsibilities for staff
- sufficient staff training for them to prepare timely and accurate periodic and year-end financial results

Our high-level review of variances in account balances and working papers found many errors that the university did not detect. For example, this year the university changed the reporting classification for student athletic and related fees but did not reclassify $1.7 million for comparative purposes. Also, the general ledger understated the vacation accrual by $1.2 million.

Several cut-off errors totalled $1.4 million, representing a net overstatement for excess of revenue over expense of about $1 million for the year ended June 30, 2011. Last year, we reported that the university did not properly account for technology fees and sabbatical costs of $1 million. These accounting issues remained unresolved this year because the university did not properly record these items in the initial draft of its year-end financial statements. It did not resolve these matters promptly, resulting in more delays in preparing the year-end financial statements.

The university management said it recently started a business process review and formed a team to identify process issues and rank them for resolution. The university needs to resolve the underlying problems in its control environment to ensure changes and improvements to business processes and controls last.

In this report we have two new and six outstanding recommendations the university needs to implement. As the university improves its financial business processes, it also needs to consider the requirements for the Public Sector Accounting Standards that it must implement for its June 30, 2013 financial statements.

To prepare timely and accurate periodic and year-end financial information, the university can benefit from the considerations and good practices we outlined in our *April 2010 Report* (page 163).

Implications and risks if recommendation not implemented

Without effective controls over its financial business processes, the university cannot be sure, or demonstrate, that:

- its operations are efficient and effective
- its assets are safeguarded
- it is complying with legislation

As well, the university cannot report financial and non-financial results promptly or accurately that management and the board need for decision making.

Improve security of PeopleSoft computer system

Background

Over the past two years, Grant MacEwan University has implemented PeopleSoft as its main financial, human resource, payroll and student enrolment systems. It uses role-based access, in which management creates roles based on jobs performed in the university. Management does not assign access to individuals. Instead, they assign the access necessary to the role and then add individuals to roles. The university automated this process in PeopleSoft.

Recommendation: improve security of PeopleSoft computer system

2 RECOMMENDATION

We recommend that Grant MacEwan University improve the security of its PeopleSoft system to ensure that the university:

- uses the system to assign access permissions based on job roles, and properly limits access
- defines, monitors and enforces rules for segregation of duties
- authorizes and reviews logs of critical data changes
- provides appropriate oversight to maintain the integrity of security controls

Criteria: the standards for our audit

The university should ensure that its computer system:

- limits user access to the minimum needed for business purposes
- documents and enforces segregation of duties through defined roles
- limits the use of powerful data entry modes

Our audit findings

Key findings

- Security design for new system is not documented
- Segregation of duties is not documented
- Use of powerful data entry mode is not restricted

We found that the university did not fully understand the complexity or implications of security configuration decisions it made when designing the system. Specifically, the university:

- did not have documented evidence to support the design of security roles
- did not have documented rules for segregation of duties
- made liberal use of a powerful data entry mode

Security design for new system is not formalized

The university designed PeopleSoft to automatically assign access to users based on their job code, department and location. However, we could not find adequate documented evidence that it fully understood if all the access assigned to the roles was appropriate and necessary.

The university could not show that it had limited role access to only those system features required for business purposes. Management had created roles, but had given the maximum access possible within the role. For example, in 98% of the cases, management had assigned all the access options available—even though the university could not show that level of access was needed. There was no documentation to show that these decisions were appropriate.

Segregation of duties is not formalized

Segregation of duties ensures that no single person can complete a significant financial process or task end-to-end, without supervision or input from another user. Management confirmed that they had not designed roles based on documented rules for segregation of duties. Instead, they relied on existing university policies and their knowledge of the business to assign segregation-of-duties requirements to the security roles.

Rules for segregation of duties were not documented and the responsibility for monitoring and enforcing them was not defined.

Use of powerful data entry mode is not restricted

There was significant use of a powerful data entry mode in PeopleSoft. This mode allows users to modify critical data and delete data records without restriction and without recording their actions in system logs. When we brought this to the university's attention, it could not show that it had considered the full impact of this powerful mode when designing and implementing its system security.

The use of this mode is problematic when it is available on financial tables that have an effective date and are linked to critical financial transaction and master files in PeopleSoft. Data in these critical files could be mistakenly deleted, causing data integrity errors and system failure.

Implications and risks if recommendation not implemented

Without clearly understanding the complexity of its security needs and PeopleSoft security capabilities, the university may assign access to users that will let them:

- manipulate data in the system intentionally (for their own gain) or unintentionally (by error)
- damage data in the system by unintentionally using features normally reserved for privileged IT users or IT support staff for system maintenance

PeopleSoft conversion controls—human resources and campus solutions

We reviewed the controls that the university used to convert and migrate business data from its former financial system into the campus and human resources modules of PeopleSoft. At the time of our audit, the campus module was not fully implemented. The university had not yet converted and moved course curriculum data into the new system. Therefore, we limited our review to assessing conversion plans, testing results and validating data conversions to determine if the university had used due diligence in converting data from the old system into the new for student data only. The human resources module was implemented and we were able to review all conversion plans and results.

Overall, the university had adequately designed processes to convert data into PeopleSoft. The university had documented sign-offs that management had reviewed and approved the results of the conversion.

Bookstore operations—implemented

The university implemented our *April 2008 Report* recommendation (page 186) to improve its system to manage and report inventories in its bookstores and to monitor and account for the use of petty cash by:

- reviewing internal management reports for the cost of inventories. The university no longer sells transit passes and bus tickets.
- approving the cash internal controls policy and the cash management policy, which includes cash handling requirements

Finance department staff complete a spot check on petty cash floats and funds held at the City Centre campus bookstore at least once a year and bi-monthly for the smaller bookstores. The bookstore manager also completes a weekly spot check on petty cash floats and funds held at the City Centre campus bookstore.

Parking services fees—implemented

The university implemented our *April 2009 Report* recommendation (page 82) to improve its systems to control, collect and account for parking services fees. The university now has effective access controls for removing cash from parking machines. The coordinator of parking services reviews the reconciliation of cash collected from the machines and from the pay-on-foot machines to the reports generated by these machines. Finance staff prepare appropriate accounting entries to record parking services fees.

Alberta College of Art and Design

In prior years, we made several recommendations and observations for ACAD to improve its internal control systems. It cannot show that it has an effective control environment. We have one new recommendation and a number of outstanding recommendations that ACAD has not implemented, related to well-designed and effective internal controls.

In September 2011, we removed our staff from the audit until management could assure us that they had reviewed and were comfortable with the completeness and accuracy of the financial statements and supporting documents. We also asked them to resolve the weaknesses we identified. ACAD management resolved many of the errors that we raised with them.

Our key message to management and the board is to make effective internal controls a priority. Until it resolves these problems and implements our five outstanding recommendations (Appendix B, page 41), ACAD cannot show that it has an effective control environment. Well-designed and effective internal controls are critical for ACAD to meet its goals, protect its assets, reduce the risk of fraud and error, and produce reliable financial information.

Financial reporting and year-end processes—progress report

Background

In our *April 2008 Report* (page 180), we recommended that ACAD improve its processes and internal controls to increase the accuracy and efficiency in its financial reporting. We repeated this recommendation in our *April 2010 Report* (page 160), because ACAD had not provided balanced financial statements and adequate working papers for the audit team to complete the audit within our timelines.

In 2011, ACAD experienced many changes in staff in its financial operations. These changes included the appointment of a new director of financial operations in March, three months before ACAD's year-end, as well as the departure of a senior financial analyst.

Management's actions

Key findings

- ACAD took steps to improve financial reporting
- Significant improvements still needed

ACAD initially had difficulty producing complete and reliable financial statements within the audit timelines. For example, it had not finalized certain critical working papers for deferred contributions, investments, capital assets and statement of cash flows in time for our year-end audit. We agreed to delay our audit for two weeks to allow more time to finish financial statements and key account analyses.

When our audit team returned to continue our audit, ACAD had resolved many of the issues identified during our initial site visit. We completed our audit and issued an unqualified auditor's report.

However, ACAD has more work to do to improve its overall financial reporting processes. For example, it needs to improve its processes to investigate variances for account balances and support its analysis with detailed explanations and documentary evidence. Also, ACAD must improve its cut-off processes for recording transactions. We found that $600,000 of cheques issued after year-end were backdated to June 30, 2011 and inappropriately coded.

To fully implement this recommendation, ACAD must:

- follow a comprehensive year-end plan to prepare account reconciliations, financial statements, note disclosures and supporting working papers within clear timelines
- prepare variance explanations on financial results and balances on time and in sufficient detail
- promptly prepare its financial statements in accordance with pro-forma statements that the Department of Advanced Education and Technology provides
- strengthen its cut-off process to ensure the accurate recording of transactions

Improve risk management systems

Background

ACAD hired consultants to develop an enterprise risk management framework. They identified the major risks and opportunities facing ACAD based on its goals and objectives. The framework is also an effective tool for identifying and prioritizing risks, assessing their probability and impacts, and developing strategies to mitigate them. The framework was designed to be used as a "live" tool to facilitate effective risk management.

ACAD has a policy requiring the president and CEO to provide a risk management report semi-annually to the board. The report is supposed to document the risk management activities during the year, assess changes in risk areas and identify new risks.

Recommendation: improve risk management systems

3 RECOMMENDATION

We recommend that the Alberta College of Art and Design:

- finalize its enterprise risk management framework document
- periodically update and manage the framework as it identifies new potential risks and opportunities
- enforce compliance with its risk management policy by requiring the president and CEO to periodically report the risks and mitigating strategies to the board

Criteria: the standards for our audit

ACAD should have an effective risk management process to manage and mitigate its risks. The board should enforce compliance with ACAD's risk management policy by periodically obtaining risk management reports from senior management on the risks ACAD faces and the mitigating strategies it uses.

Our audit findings

Key findings

- ACAD did not update its risk management framework
- The president and CEO did not provide risk management reports to the board

ACAD has not updated the risk management framework since 2009. The framework the consultants developed had the key elements we would expect for operating sound risk management practices. ACAD had assessed and ranked 21 risks, the actions needed and the person who should manage each risk. It is not using this tool to support a formal process to report to the board the key risks and mitigating strategies.

Our review of the board minutes found no evidence that the president and CEO had formally provided the risk management report or discussed significant risk management matters with the board members. Therefore, the president and CEO did not comply with the board's policy.

Implications and risks if recommendation not implemented

Without a finalized, approved and functioning enterprise risk management framework, ACAD lacks a systematic and formal way to manage its risks. If the president and CEO does not comply with the board's risk management policy, the board may not be informed on existing and potential risks that can harm ACAD operations. Without this information, the board cannot exercise effective oversight over the management of risks.

Improve journal entries processes—progress report

Background

In our *April 2010 Report* (page 183), we recommended that ACAD:

- ensure journal entries entered into the general ledger are reviewed and approved
- develop a policy that defines the process for recording and approving journal entries and documentation required to support the entry

Management's actions

Key findings

- ACAD developed journal entry guidelines
- Journal entries were not consistently reviewed and approved

ACAD has developed journal entry guidelines, and we found fewer exceptions compared to the previous audit. We tested several journal entries and found they were appropriate and properly supported. In most of these journal entries the documentation did not show evidence of approval. The exceptions were manual journal entries the director of financial operations had processed to integrate financial information into the general ledger from another system.

The director of financial operations continued to have access and the ability to initiate, post and review journal entries on the financial system. To improve segregation of duties, the director has delegated the journal entry function to the financial analyst, who is now posting the majority of journal entries. Management said that they are upgrading the financial system to a more current version, which will log who initiates, posts and reviews journal entries.

To fully implement this recommendation, ACAD must:

- ensure all journal entries are independently reviewed and approved by a person other than the creator of the journal entry
- properly segregate duties so that one staff member cannot initiate, post and review a journal entry

Controls over the extended studies program—implemented

ACAD implemented our *April 2011 Report* (page 73) recommendation to improve its controls over the set-up and approval of fees and courses in its extended studies program. It implemented an independent review process of fees and course delivery for the extended studies program and followed the process for a sample of transactions we tested. The senior vice-president of finance and corporate services reviewed and approved the course calendar and fees for the spring–summer 2011 and fall–winter 2011 terms.

Bookstore operations and access controls—implemented

ACAD implemented our *April 2010 Report* recommendation (page 181) to maintain internal controls to improve the integrity of its bookstore operations. We reported in our *April 2011 Report* (page 74) that management had implemented adequate controls over the inventory and policies and procedures for pricing and processing of refunds. This year, ACAD:

- assigned unique user names and an authentication code to strengthen its bookstores system access rights and restrictions
- implemented three levels of access within its bookstore system to enable segregation of duties and additional security in the system over user account capabilities

Policy for managing professional development funds—implemented

ACAD implemented our *April 2011 Report* recommendation (page 71) to establish policies and guidelines for managing the professional development fund. It developed policies and guidelines and communicated them to all staff. It followed these processes for a sample we tested.

NorQuest College

NorQuest College cannot demonstrate that it has an effective control environment. At year-end, it had problems creating financial statements supported by quality working papers. As a result, we removed our audit staff from the year-end audit until management could assure us that they had completed a review and were comfortable with the completeness and accuracy of the financial statements and supporting documents.

NorQuest management resolved many of the issues that we raised with them to allow us to complete the audit. We then issued an unqualified audit opinion on the college's financial statements.

NorQuest still needs to improve its processess and controls by implementing the new recommendations in this report and our one outstanding recommendation (Appendix B, page 44). Until then, it cannot show that it has an effective control environment.

Well-designed and effective internal controls are critical for NorQuest to meet its goals, protect its assets, reduce the risk of fraud and error, and produce reliable financial information.

Improve financial internal controls

Background

Management is responsible for establishing effective internal controls to run the college, to have accurate financial information to make decisions and to ensure the financial statements are free from material misstatements (due to fraud or error). This includes developing and documenting clear policies and procedures, defining clear roles and responsibilities for financial and operational staff, and implementing quality control processes to ensure reliable information.

Recommendation: improve financial internal controls

4 RECOMMENDATION

We recommend that NorQuest College improve its internal controls in the key areas of reconciliation of financial information, approval of invoice payments, review of journal entries and documentation of these controls.

Criteria: the standards for our audit

The college should have effective business processess and systems to produce timely, relevant and accurate period and year-end financial information, financial statements and working papers. This requires sufficiently skilled and trained staff; clearly documented policies, processes and controls; clearly documented roles and responsibilities; and effective monitoring and review processess to ensure staff follow the policies, processes and controls.

Our audit findings

Key findings

- Reconciliations were not completed or reviewed; outstanding items were not investigated and cleared
- Invoices were not appropriately approved
- Many errors were present in journal entries
- Process documents were not updated for changes in systems from 2010

Reconciliations

The ledgers for accounts payable, capital assets and payroll were not reconciled to the general ledger. The college's finance department did not regularly reconcile sub-ledgers to the general ledger, and had not reconciled payroll to the college's general ledger at year-end. Prompt reconciliations ensure the accuracy of financial information that management needs to run the business and make decisions, and for the board to effectively oversee the college.

Finance department staff also failed to prepare and review bank reconciliations promptly. We tested six year-end bank reconciliations and found that four were prepared two months later. No one had investigated unreconciled items.

Reviews and approvals

We found invoice payments that did not have the approval required under the college's policy for signing authority. The college also had no process to ensure staff recorded transactions in the correct period. Errors in contract revenue existed, as revenue was recorded in the wrong year. The college adjusted these errors.

Journal entries

Finance staff had properly signed off journal entries as reviewed before they were entered into the general ledger. However, their review of journal entries was not effective. A significant number of adjustments to journals were needed to correct posting errors. A significant number of journal entries resulted from errors in previously approved journal entries.

Documentation

The college has not updated its policy documentation for key process changes after the PeopleSoft conversion in fiscal 2010. Documented policies and procedures do not exist for leases, work in progress or contract management (see next section).

Implications and risks if recommendation not implemented

Without effective controls over its financial business processes, the college cannot be sure, or demonstrate, that:

- its operations are efficient and effective
- its assets are safeguarded
- it is complying with legislation

As well, the college cannot promptly or accurately report financial and non-financial results management and the board need for decision making.

Improve controls over contracts

Background

The college uses contracts when it provides services to other organizations and when other organizations provide services to the college. These include agreements for leased premises, consulting services and provision of exams and courses. During the year, the college processed $12 million for expenses and $6 million for revenue for these contracts.

Recommendation: improve controls over contracts

5 RECOMMENDATION

We recommend that NorQuest College improve its controls over contract management.

Criteria: the standards for our audit

The college should have documented systems to adequately control how it issues, amends and maintains contracts and how it processes transactions under these contracts.

Our audit findings

Key findings

- Contracting processes are inconsistent
- Finance department was unaware of $3.2 million in contractual obligations
- In over 60 cases, the college recorded payments or revenues based on verbal, not written, agreement

Each department is responsible for its own contracting processes, such as initiating and maintaining them. The finance department does not provide any oversight over contract initiation, approval and maintenance.

We asked management to verify the completeness of contracts and reconcile the payments to the amounts recorded in the general ledger. Management's review increased the college's contract obligation note by $3.2 million. The finance department had no knowledge of these additional obligations. We tested contracts and identified one that was signed six months after work began.

We also reviewed the revenues the college recorded as contract revenues. We found over 60 instances where the college recorded reimbursements for expenses or receipts for revenue based on a verbal agreement only or no contract at all. In one example, the college provided an equivalency exam to help high school students meet admissions requirements to another institution. The high school collected the exam fees and administered and marked the exam. The college had no written contract for the high school to provide these services.

During our interim testing, we also found one contract with an amended payment schedule that neither party had signed. The department had amended the contract terms without documentation or appropriate approval.

Implications and risks if recommendation not implemented

Without controls over contract management, NorQuest College is exposed to business and legal risks because terms and conditions of services are not clearly defined.

Improve controls over donations

Background

The college is a not-for-profit organization that receives the majority of its funding through government grants, tuition revenue and donations. The NorQuest College Foundation receives donations on the college's behalf. The foundation also allocates donations based on the donor's request. The college's finance department receives a copy of the donor's form and performs monthly bank reconciliations to ensure all cash donations are recorded in the general ledger and are classified in accordance with the donor's instructions.

Recommendation: improve controls over donations

6 RECOMMENDATION

We recommend that NorQuest College improve its processes to manage donations.

Criteria: the standards for our audit

The college should have documented systems to ensure that it:

- issues receipts for all donations
- deposits all donations
- accurately and completely reports donations in the financial statements
- uses donations in accordance with the donor's request

Our audit findings

Key findings

- Receipts not issued for all donations
- Insufficient supporting documents stating donations' purposes
- Reconciliations not reviewed and unreconciled items not investigated

The college does not have appropriate controls over donations. The college issues receipts for donations only if the donor requests one. Funds are properly deposited and accounted when the college issues receipts. We reviewed the bank reconciliation for the foundation, which is responsible for receiving and providing receipts for all donations to the college. We noted that the foundation's staff reviewed its bank reconciliation for donations, but did not follow up on unreconciled items.

Unreconciled items included multiple donation amounts totalling approximately $2,000 that were not deposited in the foundation's bank account, and $230,000 in cash donations that the finance department noted as having no supporting documentation.

At our request, college management reviewed all donations to ensure that the balances reported in the financial statements were complete and accurate. Management found that the finance department had recorded cash donations totalling approximately $2,000 in the operating account instead of the foundation's bank account. Management obtained the support for the $230,000 difference and increased a deferred contribution account by $180,000 and an endowment account by $50,000. After the adjustments, we were satisfied that the financial statements were not materially misstated.

Implications and risks if recommendation not implemented

If the college does not implement a process to accurately and completely record donations, it risks being unable to detect fraud and error in its financial statements. It also risks failing to fulfill its donors' intentions.

Improve quality control over year-end financial information

Background

College management is responsible for preparing the financial statements and accompanying notes and schedules in accordance with Canadian generally accepted accounting principles. Effective internal controls over financial reporting help make this process more efficient and the financial information more accurate.

Recommendation: improve quality control over year-end financial information

7 RECOMMENDATION

We recommend that NorQuest College improve its quality control processes for preparing its year-end financial information, to improve efficiency and accuracy.

Criteria: the standards for our audit

The college should have effective processes to produce accurate and timely year-end financial information.

Our audit findings

Key finding

Year-end close processes inadequate to identify errors and provide supporting documents

Management provided financial statements and audit working papers at the start of our audit. In many cases, the working papers were not supported by proper documentation. Management could provide no assurance that they had accurately recorded cash donations, for example.

Finance staff used multiple entries to reclassify transactions for which the original entries did not correctly record the nature of a transaction. That made it hard for management to give us appropriate documentation to support the college's financial transactions. This in turn made it hard for us to trace activities and understand the nature of the transactions in the account.

Implications and risks if recommendation not implemented

Management, the audit committee and the board may not have timely and accurate information to run and oversee the college and to make informed decisions. Also, the processes may be inefficient, resulting in unreasonable costs to prepare and audit year-end financial statements.

Compliance with procurement card policy—implemented

NorQuest College implemented our *April 2009 Report* recommendations (pages 88 and 89) to ensure that procurement cardholders comply with its procurement card policy and to promptly resolve all non-compliance cases. The college now regularly monitors credit card statements to ensure staff promptly submit claims with adequate supporting documents. It also maintains a register of non-compliance with its credit card policy.

Olds College

We repeated our recommendation below for the Olds College to improve its processes and controls over year-end financial reporting, as the college made unsatisfactory progress to resolve its control weaknesses. The college had problems creating accurate and quality financial statements supported by working papers. We provided several comments to management on the draft financial statements that dealt with required disclosures or inconsistencies between the statements and notes that management's review did not identify. We also identified two significant errors that management corrected. Well-designed and effective internal controls are critical for the college to meet its goals, protect its assets, reduce the risk of fraud and error, and produce reliable financial information.

Improve periodic financial reporting—recommendation repeated

Background

In our *April 2011 Report* (page 68), we recommended that Olds College improve its processes and controls over year-end financial reporting. Management is responsible for preparing the financial statements and accompanying notes and schedules in accordance with Canadian generally accepted accounting principles. In doing this, management should have effective internal controls over financial reporting. Also, the board and management need timely and accurate financial and non-financial information to govern and manage the college.

Recommendation: improve periodic financial reporting

8 RECOMMENDATION REPEATED

We again recommend that Olds College improve its processes and controls over year-end financial reporting.

Criteria: the standards for our audit

The college should have effective processes to ensure it reports accurate financial information. This includes adequate review processes to ensure financial statements are prepared accurately and on time, in accordance with Canadian generally accepted accounting principles.

Our audit findings

Key findings

- Management review of financial statements and supporting schedules was insufficient
- We identified several errors

The college still lacks effective processes and controls over financial reporting. We received draft financial statements at the start of our fieldwork, and the college had prepared binders of working papers for us. A significant amount of information and supporting documents, such as detailed listings of accounts and variance explanations, was missing from the working papers. Of the items in the working paper binders, many were not reconciled to the financial statements. In addition, management could not respond to general queries and variance analyses, indicating that they had not done a sufficient internal review of the financial statements.

Our fieldwork also revealed several errors that an effective management review process should have identified. For example, we found:

- a $600,000 receivable balance recorded as a liability rather than an asset
- donation revenues of $134,000 recorded in the 2011 fiscal year that were actually related to the 2010 fiscal year
- $114,000 in expenses that were capitalized rather than expensed

Implications and risks if recommendation not implemented

Without effective and efficient processes and controls over year-end financial reporting, the college cannot provide timely and accurate reporting of financial information at a reasonable cost. In addition, financial reporting throughout the year may not be accurate.

Restrict privileged access to appropriate staff

Background

System access controls are key to keeping financial and student data secure. Effective controls prevent users from making unauthorized changes to systems and the data in them.

Privileged system access lets users edit data or program configuration to maintain the system. This level of access is not available to normal users. Giving too many people this level of access, or combining this access with routine data entry responsibilities, can reduce the effectiveness of controls over managing changes to data and the system.

Access controls can allow segregation of job duties, an important internal control for maintaining reliable data and protecting resources. This helps ensure there are no incompatible or conflicting job functions among staff.

Recommendation: restrict privileged access to appropriate staff

9 RECOMMENDATION

We recommend that Olds College segregate privileged systems access from data entry responsibilities and business functions.

Criteria: the standards for our audit

The college should have effective controls to segregate incompatible job functions that might otherwise allow a privileged user to manipulate data or compromise system security. Users who have privileged systems access should not also have job functions that involve entering or approving data.

Our audit findings

Key findings

- Privileged access to systems resulted in conflicting roles
- No compensating controls existed to review accuracy and validity of transactions

We compared a list of staff with privileged systems access to a list of staff with data entry responsibilities. Segregation of duties between the privileged access holders and their main job functions was inadequate. For example, security administrators had financial data entry responsibilities, certain employees shared the password for a privileged account to a financial application, and an IT employee with privileged access to a financial application also had privileged access to the supporting network.

Another example of weak segregation of duties is that both the accounts payable and payroll functions have privileged system access in the financial system. There were no compensating controls, such as independent and timely reviews by management to ensure the accuracy and validity of payments. The college processes over $10 million in purchases and $25 million in payroll each year. The high volume of transactions makes segregation of duties over payments for purchases and payroll essential. Despite the weaknesses, we did not find any unusual transactions.

Implications and risks if recommendation not implemented

If the college does not segregate privileged systems access from data entry responsibilities and business functions, its systems and data are vulnerable to unauthorized changes by fraud or error. Having too many privileged users increases the risk of non-compliance with formal change-management processes when people modify data or programs. Further, sharing passwords reduces management's ability to have proper oversight and determine accountability for errors or misuse.

Keyano College

Improve processes to secure servers

Background

Information systems are an integral part of Keyano College's operations. Management relies on controls to protect the confidentiality, integrity and availability of information systems.

Recommendation: improve processes to secure servers

10 RECOMMENDATION

We recommend that Keyano College ensure all its servers are secure, with up-to-date anti-virus security and software upgrades.

Criteria: the standards for our audit

The college should have:

- policies, procedures and standards for developing, operating, maintaining, documenting and securing its servers and network infrastructure
- control processes to monitor the security of the overall IT environment, including monitoring its servers and network infrastructure, and ensuring compliance with all security standards

Our audit findings

Key findings

Servers were not maintained with anti-virus and software updates

The college has documented control procedures to maintain its servers with anti-virus and operating system updates. It has not consistently followed these procedures. We reviewed 15 randomly selected computer servers and found:

- two servers did not have anti-virus software installed—A server used to manage system user access and a Microsoft SQL production database server.
- three servers did not have up-to-date software patches—The identity management server, the Microsoft SQL production database server and the SharePoint documentation server.

Implications and risks if recommendation not implemented

Inadequate security controls in the computing environment could result in breach of confidentiality and integrity of information. It could also disrupt Keyano College's critical business processes.

Improving corporate risk assessment practices—implemented

Keyano College implemented our *April 2010 Report* recommendation (page 159) by creating a risk-assessment process that collects risks from its various departments, prioritizes and responds to them, and reports on them to its board of governors.

Lakeland College

Review and approve manual journal entries

Human resource employees make a number of manual journal entries each month and give them to the finance department to post. These journal entries include clearing suspense accounts and recording payroll deduction remittances and bank charges.

Recommendation: review and approve manual journal entries

11 RECOMMENDATION

We recommend that Lakeland College ensure proper review and approval of all manual journal entries.

Criteria: the standards for our audit

The college should ensure that the person who reviews and approves manual journal entries has the authority to do so and did not make the entry.

Our audit findings

Key finding

Journal entries were not reviewed and approved

The college lacks a process for someone to review the appropriateness and accuracy of journal entries. Although we did not find any errors or issues when we tested the journal entries, someone should always review and approve manual entries to ensure that they are complete and appropriate.

Implications and risks if recommendation not implemented

Without an appropriate review and approval of journal entries, the college risks errors and inappropriate and fraudulent journal entries going undetected.

Segregation of duties over payroll function—implemented

Lakeland College implemented our *April 2009 Report* recommendation (page 91) to segregate access to the its payroll system, review change reports generated from the payroll system for appropriateness, and prepare and review monthly reconciliations between the payroll system and general ledger. The college implemented processes to:

- define the job profiles and type of access that staff need within the payroll system, and review quarterly whether staff have appropriate access
- review changes in employee salary and province of residence—The college should now consider incorporating changes to personal information in this review.
- promptly complete and review monthly reconciliations between the payroll system and general ledger

Medicine Hat College

Improve enterprise risk management systems

Background

We recommended to the management of Medicine Hat College that it needed to improve its risks assessment processes. We subsequently reported this in our *April 2010 Report* (page 159). Last year, we found that the college was making satisfactory progress with the recommendation. It had categorized 98 risk areas and rated 24 as either medium or high. In June 2010, the college hired a third party to develop a risk management process after its vice-president of corporate services left.

Recommendation: improve enterprise risk management systems

12 RECOMMENDATION

We recommend that Medicine Hat College improve its risk assessment process by:

- documenting its assessment of risks for their impact and likelihood of occurrence
- prioritizing the key risks and clearly linking those risks to a program, operational plan or procedures designed to manage and monitor those risks
- formally reporting the key risks and mitigating actions to the board

Our audit findings

In 2011, we found that the college had taken too few steps to implement this recommendation. In the prior year, it had named the vice-president of corporate services as the lead person to formalize the risk management processes. As the college did not hire a new vice-president in 2011, it was unclear which member of the college executive assumed responsibilities for formalizing the risk management processes.

To implement the recommendation, the college must:

- confirm its risk assessments and prioritization of key risks, and report results to the board
- develop sustainable processes to determine and document risks and risk-mitigation plans
- formalize its ongoing risk reporting to the board through senior management

Implications and risks if recommendation not implemented

Without a formal risk-management process, the college may not mitigate all significant risks and may focus resources in non-significant areas.

Improve controls over cash, accounts receivable and accounts receivable write-offs—implemented

Medicine Hat College implemented our *April 2011 Report* recommendation (page 80), to improve its controls over cash, accounts receivable and accounts receivable write-offs related to tuition by:

- adequately segregating incompatible functions of preparing daily cash receipts, processing accounts receivable and writing off receivables
- requiring registration clerks to use cash count sheets for controlling cash handling and reconciling cash handovers to the student accounts clerk
- documenting approval of receivable write-offs

Portage College

Follow access controls and remove access promptly

Background

System access controls are a cornerstone of data security. They ensure that users cannot make unauthorized changes to systems, applications or data in them. Effective access controls typically include procedures such as formal access requests, approvals, access monitoring and segregation of duties.

Recommendation: follow access controls and remove access promptly

13 RECOMMENDATION

We recommend that Portage College ensure that employees follow its system user-access control procedures and that management promptly removes access privileges when staff leave.

Criteria: the standards for our audit

The college should have effective controls to ensure it promptly removes system access of terminated staff.

Our audit findings

Key findings

- Staff access to network and systems was not removed promptly
- Staff who left the college still had access to network and systems

The college does not comply with its system access control procedures, which require it to disable employee access to its network as part of its termination procedures. Four user accounts for staff no longer with the college were still active. All four had access to the college's network and one user account still had access to the financial system. We confirmed with information technology management that they had not removed access because no one had completed employee exit forms or sent the forms to trigger IT to remove the access.

Although emails from human resources and the business area asked IT to remove access, IT did not proceed because they had not received official exit forms. We also found one example of a user account with a completed exit form that still had system access at the time of our audit—eight months after the employee had left the college.

Implications and risks if recommendation not implemented

Unauthorized people may access the college's systems. The network is the first place where unauthorized users can change or manipulate critical personal, business and financial information. As well, unauthorized access to financial systems could impair the integrity of financial reporting and results through fraud.

Develop and test a business resumption plan

Background

We first made this recommendation in our 2004 management letter to the college. In 2005, it said that it planned to use templates that the Alberta Association in Higher Education for Information Technology developed for member institutions. These include templates for risk assessment, risk-mitigation planning and system-recovery planning.

In 2006, the college began developing a business resumption plan, with guidance from the Department. In March 2010, the board of governors approved a policy directing the college to prepare a full business continuity plan. The college's guideline on emergency preparedness, response and recovery falls under this policy. As the college has still not dealt with this recommendation since 2004, we now include it in our public report.

Recommendation: develop and test a business resumption plan

14 RECOMMENDATION

We recommend that Portage College fully develop and test a business resumption plan to ensure that it can resume IT services in a reasonable time after a disaster.

Criteria: the standards for our audit

The college should have:

- an up-to-date business resumption plan based on risk assessment of critical IT services and business requirements to continue these services—The plan should include documented and effective disaster recovery procedures to recover the college's critical systems and networks.
- effective plans and funds available to test the disaster recovery plan regularly, using an offsite IT recovery facility
- effective procedures to assess the adequacy and completeness of the plan after testing

Our audit findings

Key findings

- Backups of critical financial systems were not stored appropriately
- Disaster recovery procedures didn't exist and recovery was not tested

System backups

The college stored the backup copies of its critical financial systems on the same computer server as its production systems. In an operational failure with that server, the college's ability to recover its systems and resume operations would be impaired. The college moved the backups to a separate server after we told them about this.

Disaster recovery procedures

The college has not developed the IT disaster recovery procedures for its business resumption plan. Nor has it tested the recovery of its critical systems using backups at an alternate data centre site. It does not keep offsite copies of its system backups.

The college must:

- develop and implement IT disaster recovery procedures that support its overall business resumption plan
- regularly test the recovery procedures to show their effectiveness in reducing the impact of a major disruption on key business functions and processes

Implications and risks if recommendation not implemented

The college may be unable to systematically recover its critical student and finance systems and data to resume its critical business and student services within an appropriate and required time, if there is a catastrophic disaster at its main data centre.

Improve controls over bookstore inventory—recommendation repeated

Background

In our *2011 April Report* (page 82), we recommended that the college improve the accuracy of its perpetual inventory system at the bookstore. Management said the college had implemented the following process:

- weekly review of book manager inventory to ensure negative balances are identified and corrected
- weekly inventory counts to identify any adjustments to inventory records needing investigation and explanation
- internally assigned bar codes phased out in favour of universal product codes

Recommendation: improve controls over bookstore inventory

15 RECOMMENDATION REPEATED

We again recommend that Portage College improve the accuracy of its perpetual inventory system at the bookstore.

Criteria: the standards for our audit

The college's perpetual inventory systems should accurately reflect the amount of inventory on hand, in real time. Periodic physical inventory counts should verify the amounts recorded in the system.

Our audit findings

Key findings

- Inventory counts were not done promptly
- Adjustments were made to bookstore inventory without investigating reasons for variances

We reviewed the college's bookstore inventory controls and found:

- inventory counts were not being performed promptly—Bookstore staff printed inventory sheets on a specific count day, but did not count the inventory until days or weeks later. They said they count inventory when they have time. Also, the same person performs the inventory counts and adjusts the inventory system. No explanations for variances or adjustments were prepared or reviewed by another person.
- internally generated barcodes were being phased out but no list was kept specifying which items have been converted to UPC only or not—The bookstore still made sales using the internally generated barcodes because most inventory is tracked with them.
- review of negative balances was still performed monthly—We did not observe that weekly review processes were implemented, as indicated in management's comments. We also saw that the bookstore manager adjusts the inventory system without further investigation.

To fully implement this recommendation, management must implement processes that best reflects the college's availability of funds and resources, while appropriately managing the risks.

Implications and risks if recommendation not implemented

Without tracking inventory, the college risks fraud and inaccurate financial information.

AUDITOR GENERAL
Alberta

Appendix A—Summary of Recommendations in this Report

Report of the Auditor General of Alberta—March 2012

Appendix A—Summary of Recommendations in this Report

Alberta College of Art and Design

Improve risk management systems—Recommendation No. 3

Page 19

We recommend that the Alberta College of Art and Design

- finalize its enterprise risk management framework document
- periodically update and manage the framework as it identifies new potential risks and opportunities
- enforce compliance with its risk management policy by requiring the president and CEO to periodically report the risks and mitigating strategies to the board

Grant MacEwan University

Improve financial business processes—Recommendation No. 1

Page 13

We recommend that Grant MacEwan University improve its financial business processes by

- establishing clearly documented processes and controls
- developing clear roles and responsibilities and communicating these to staff
- training staff on the policies, processes and controls relating to their roles and responsibilities
- implementing monitoring and review processes to ensure staff follow the policies, processes and controls

Improve security of PeopleSoft computer system—Recommendation No. 2

Page 15

We recommend that Grant MacEwan University improve the security of its PeopleSoft system to ensure that the university

- uses the system to assign access permissions based on job roles, and properly limit access
- defines, monitors and enforces rules for segregation of duties
- authorizes and reviews logs of critical data changes
- provides appropriate oversight to maintain the integrity of security controls

Keyano College

Improve processes to secure its servers—Recommendation No. 10

Page 29

We recommend that Keyano College ensure all its servers are secure, with up-to-date anti-virus security and software upgrades

Lakeland College

Review and approve manual journal entries—Recommendation No. 11

Page 30

We recommend that Lakeland College ensure proper review and approval of all manual journal entries

Medicine Hat College

Improve enterprise risk management systems—Recommendation No. 12

Page 31

We recommend that Medicine Hat College improve its risk assessment process by

- documenting its assessment of risks for their impact and likelihood of occurrence
- prioritizing the key risks and clearly linking those risks to a program, operational plan or procedures designed to manage and monitor those risks
- formally reporting the key risks and mitigating actions to the board

NorQuest College

Improve financial internal controls—Recommendation No. 4

Page 22

We recommend that NorQuest College improve its internal controls in the key areas of reconciliation of financial information, approval of invoice payments, review of journal entries and documentation of these controls

Improve controls over contracts—Recommendation No. 5

Page 23

We recommend that NorQuest College improve its controls over contract management

Improve controls over donations—Recommendation No. 6

Page 24

We recommend that NorQuest College improve its processes to manage donations

Improve quality control over year-end financial information—Recommendation No. 7

Page 25

We recommend that NorQuest College improve its quality control processes for preparing its year-end financial information, to improve efficiency and accuracy

Olds College

Page 27

Improve periodic financial reporting—Recommendation No. 8—Repeated

We again recommend that Olds College improve its processes and controls over year-end financial reporting.

Page 28

Restrict privileged access to appropriate staff—Recommendation No. 9

We recommend that Olds College segregate privileged systems access from data entry responsibilities and business functions.

Portage College

Page 32

Follow access controls and remove access promptly—Recommendation No. 13

We recommend that Portage College ensure that employees follow its system user-access control procedures and that management promptly removes access privileges when staff leave.

Page 33

Develop and test a business resumption plan—Recommendation No. 14

We recommend that Portage College fully develop and test a business resumption plan to ensure that it can resume IT services in a reasonable time after a disaster.

Page 34

Improve controls over bookstore inventory—Recommendation No. 15—Repeated

We again recommend that Portage College improve the accuracy of its perpetual inventory system at the bookstore.

AUDITOR GENERAL *Alberta*

Appendix B—Outstanding Recommendations to Post-secondary Institutions from Previous Reports

Report of the Auditor General of Alberta—March 2012

Appendix B—Outstanding Recommendations to Post-secondary Institutions from Previous Reports

Advanced Education and Technology

Department

The following recommendation is outstanding and not yet ready for a follow-up audit:

Cross-Institution recommendations: Enterprise risk management—April 2010, no. 17, p. 158

We recommend that the Department of Advanced Education and Technology (through the Campus Alberta Strategic Directions Committee) work with post-secondary institutions to identify best practices and develop guidance for them to implement effective enterprise risk management systems.

Management has identified these recommendations as implemented—to be confirmed with follow-up audits:

Non-credit programs: Standards and expectations—April 2008, no. 1, p. 22

We recommend that the Department of Advanced Education and Technology:

- clarify its standards and expectations for non-credit programs and clearly communicate them to public post-secondary institutions
- work with institutions to improve the consistency of information that institutions report to the Department

Non-credit programs: Monitoring—April 2008, no. 2, p. 23

We recommend that the Department of Advanced Education and Technology implement effective processes to:

- monitor whether institutions report information consistent with its expectations
- investigate and resolve cases where institutions' program delivery is inconsistent with its standards and expectations

Alberta College of Art and Design

The following recommendations are outstanding and not yet ready for follow-up audits:

Preserving endowment assets—April 2009, p. 78

We recommend that Alberta College of Art and Design define its goals for the use and preservation of the economic value of endowment assets (inflation proofing).

Periodic financial reporting—April 2010, p. 160
(repeated once since April 2008)

We again recommend that Alberta College of Art and Design improve its processes and controls to increase efficiency, completeness and accuracy of financial reporting.

Journal entries—April 2010, p. 183

We recommend that Alberta College of Art and Design:

- ensure journal entries entered into the financial system are independently reviewed and approved
- develop a policy that defines the process for recording and approving journal entries and the documentation required to support the entry

Controls over vendor master file set-up and maintenance—April 2011, p. 73

We recommend that Alberta College of Art and Design improve its controls over the set-up, maintenance and monitoring of its vendor master list.

Management has identified these recommendations as implemented—to be confirmed with follow-up audits:

Information technology internal controls—October 2007, vol. 2, p. 21

We recommend that the Alberta College of Art and Design strengthen internal controls for computer system access and server backups. We further recommend that the College develop a computer use policy.

Code of conduct, conflict of interest and fraud policies—April 2011, p. 72

We recommend that the Alberta College of Art and Design:

- develop, implement and enforce policies for code of conduct and conflict of interest
- develop and implement a fraud policy that clearly defines actions, responsibilities, authority levels and reporting lines in case of fraud allegations

Appendix B—Outstanding Recommendations to Post-secondary Institutions from Previous Reports

Athabasca University

The following recommendations are outstanding and not yet ready for follow-up audits.

Information technology governance, strategic planning and project management: Improve governance and oversight of information technology—October 2010, no. 1, p. 21

We recommend that Athabasca University continue to improve its information technology governance by

- developing an integrated information technology delivery plan that aligns with the university's information technology strategic plan
- requiring business cases for information technology projects that include key project information such as objectives, costs-benefit assessments, risks and resource requirements to support the steering committees' and executive committee's decisions and ongoing project oversight
- improving the coordination and communication between the information technology steering committees in reviewing, approving and overseeing projects

Information technology governance, strategic planning and project management: Improve portfolio and project management processes—October 2010, no. 2, p. 24

We recommend that Athabasca University continue to improve its portfolio management and project management processes for information technology projects by

- clarifying and communicating the mandate and authority of the project management office
- setting project management and architectural standards, processes and methodologies, and training project managers on these
- monitoring and enforcing project managers' adherence to these standards, processes and methodologies
- tracking and managing project dependencies on scope, risks, budgets and resource requirements

Information technology governance, strategic planning and project management: Formalize information technology project performance monitoring and reporting—October 2010, p. 25

We recommend that Athabasca University formalize and improve its monitoring and oversight of information technology projects by

- improving its systems to quantify and record internal project costs
- providing relevant and sufficient project status information to the information technology steering and executive committees, and summarized project information to the Athabasca University Governing Council Audit Committee
- completing post-implementation reviews on projects to verify that expected objectives and benefits were met and identify possible improvements to information technology governance, strategic planning and project management processes

Information technology governance, strategic planning and project management: Resolve inefficiencies in financial, human resources and payroll systems—October 2010, p. 27

We recommend that Athabasca University complete its plans to resolve the inefficiencies in its financial, human resources and payroll systems.

Establish information technology resumption capabilities—October 2010, no. 10, p. 111

We recommend that Athabasca University:

- assess the risks and take the necessary steps to establish appropriate offsite disaster recovery facilities that include required computer infrastructure to provide continuity of critical information technology systems
- complete and test its existing disaster recovery plan to ensure continuous services are provided in the event of a disaster

Grant MacEwan University

The following recommendations are outstanding and not yet ready for follow-up audits:

Systems over costs for internal working sessions and hosting guests—April 2010, p. 165

We recommend that Grant MacEwan University:

- implement policies and guidance on appropriate expenses for events related to internal working sessions and for hosting guests
- follow its policies and processes for employee expense claims and corporate credit cards

Preserve endowment assets—April 2010, p. 170

We recommend that Grant MacEwan University improve its endowment and related investment policies and procedures by:

- establishing and regularly reviewing a spending policy for endowments
- improving its processes to review its endowment related investments
- improving its reporting of investments and endowments to the audit and finance committee

Improve and implement university policies—April 2010, no. 18, p. 174

We recommend that Grant MacEwan University improve its control environment by implementing or improving:

- a code of conduct and ethics policy and a process for staff to acknowledge they will adhere to its policies
- a process for staff to annually disclose potential conflicts of interest in writing so the university can manage them proactively
- a safe disclosure policy and procedure to allow staff to report incidents of suspected or actual frauds or irregularities
- a responsibility statement in its annual report to acknowledge management's role in maintaining an effective control environment

Management has identified these recommendations as implemented—to be confirmed with follow-up audits:

Capital assets—April 2009, p. 85

We recommend that Grant MacEwan University improve its capital asset processes by:

- documenting its assessment on the appropriate accounting treatment for costs related to construction and renovation projects
- coding and recording transactions accurately the first time

Adhere to signing authority limits—April 2010, p. 176

We recommend that Grant MacEwan University improve its processes to ensure appropriate staff with proper signing authority approve contracts and purchases.

3+ **Ensure contracts are signed before work begins—April 2011, no. 3, p. 75 (repeated once since November 2006)**

We again recommend that Grant MacEwan University have signed contracts (interim or final) in place before projects start.

Keyano College

The following recommendations are outstanding and not yet ready for follow-up audits:

Access controls to key financial systems—April 2011, p. 77

We recommend that Keyano College improve access control policies and processes for its information systems to ensure that:

- user access to networks and application systems is disabled when employees leave their employment
- user access to computer networks and systems is properly authorized and all staff and contractors comply with the computer use policy

Monitor access to key financial systems—April 2011, p. 78

We recommend that Keyano College develop a policy and processes for monitoring and investigating breaches of security to its information systems.

Lakeland College

The following recommendation is outstanding and not yet ready for a follow-up audit:

Improve controls for staff to formally acknowledge code of conduct—April 2011, p. 79

We recommend that Lakeland College enhance its code of conduct processes and require all employees to reconfirm compliance with the code of conduct regularly.

Appendix B—Outstanding Recommendations to Post-secondary Institutions from Previous Reports

NorQuest College

The following recommendation is outstanding and not yet ready for a follow-up audit

Bookstore services: Segregation of duties in the bookstore—April 2010, p. 186

We recommend that NorQuest College implement proper segregation of duties within its bookstore services.

Olds College

The following recommendations are outstanding and not yet ready for follow-up audits

Improve periodic financial reporting—March 2012, no. 8, p. 27
(repeated once since April 2008)

We again recommend that Olds College improve its processes and controls over year-end financial reporting.

Improve internal controls—April 2011, p. 81
(repeated once since April 2010)

We again recommend that Olds College improve internal controls in the bookstore relating to sales and inventories.

Portage College

The following recommendations are outstanding and not yet ready for follow-up audits

Improve periodic financial reporting—April 2011, p. 68
(repeated once since April 2010)

We again recommend that Portage College improve its financial reporting to its board and senior management by providing—at least quarterly—complete financial statements of financial position and actual year-to-date operating results.

Improve controls over bookstore inventory—March 2012, no. 15, p. 34
(repeated once since April 2011)

We again recommend that Portage College improve the accuracy of its perpetual inventory system at the bookstore.

Red Deer College

The following recommendation is outstanding and not yet ready for a follow-up audit

Systems over costs for internal working sessions and hosting guests—April 2010, p. 167

We recommend that Red Deer College

- implement policies and guidance on appropriate expenses for internal working sessions and hosting guests
- strengthen its processes to ensure staff follows its policies and processes for employee expense claims and corporate credit cards

University of Alberta

Management has identified these recommendations as implemented—to be confirmed with follow-up audits

Strategic planning for research—October 2004, p. 252

We recommend that the University of Alberta improve the integration of research into its strategic business plan by ensuring that

- key performance measures and targets are identified with each strategy indicated in the plan
- the costs of achieving these targets are considered when making budget allocation decisions
- the faculty and other research administrative unit plans set out in clear, consistent terms, the extent to which faculties and units are planning to contribute to the achievement of these targets

Systems over costs for internal working sessions and hosting guests—April 2010, p. 167

We recommend that the University of Alberta follow its policies and processes for employee expense claims and corporate credit cards.

University of Calgary

The following recommendations are outstanding and not yet ready for follow-up audits

Improving the control environment—October 2008, no. 21, p. 213

We recommend that the University of Calgary improve the effectiveness of its control environment by

- assessing whether the current mix of centralized and decentralized controls is appropriate to meet its business needs
- defining clear roles, responsibilities and accountabilities for control systems' design, implementation, and monitoring
- documenting its decentralized control environment and implementing training programs to ensure those responsible for business processes have adequate knowledge to perform their duties
- monitoring decentralized controls to ensure processes operate effectively

3+ **Research management: Planning for research capacity—October 2010, no. 4, p. 46 (repeated once since October 2004)**

We again recommend that the University of Calgary improve its human resources plans and develop a system to quantify and budget for the indirect costs of research

3+ **Research management: Define research management roles and responsibilities—October 2010, no. 5, p. 48 (repeated once since October 2005)**

We again recommend that the University of Calgary define research management roles and responsibilities

3+ **Research management: Research policies—October 2010, no. 6, p. 50 (repeated once since October 2005)**

We again recommend that the University of Calgary ensure all research policies are current and comprehensive Specifically, the policies should identify who is responsible for monitoring compliance

Research management: Project management—October 2010, p. 52 (repeated once since October 2005)

We again recommend that the University of Calgary and its faculties use project management tools for large, complex projects to ensure research is cost effective

Enterprise risk management—November 2011, no. 5, p. 67

We recommend that the University of Calgary adopt an integrated risk management approach to identify and manage the risks that impact the university as a whole

Secure access to its PeopleSoft system—November 2011, no. 7, p. 68

We recommend that the University of Calgary ensure access to its PeopleSoft system is secured and meets the university's security standards

Management has identified these recommendations as implemented—to be confirmed with follow-up audits

Systems over costs for internal working sessions and hosting guests—April 2010, p. 166

We recommend that the University of Calgary:

- implement policies and guidance on appropriate expenses for internal working sessions and hosting guests
- follow its policies and processes for employee expense claims and corporate credit cards

Improve IT change management controls—November 2011, no. 6, p. 67

We recommend that the University of Calgary implement

- an organization-wide IT change management policy with supporting procedures and standards
- processes to ensure the policy is consistently followed throughout the organization

University of Lethbridge

The following recommendation is outstanding and not yet ready for a follow-up audit:

3+ **Information technology internal control framework—October 2007, no. 21, vol. 2, p. 23**

We recommend that the University of Lethbridge implement an information technology control framework.

Management has identified these recommendations as implemented—to be confirmed with follow-up audits:

Clear and complete research policies—October 2008, p. 227

We recommend that the University of Lethbridge improve systems to ensure that:

- financial research policies are current and comprehensive
- proper documentation is maintained for approving research accounts
- researchers, research administrators and financial services staff are aware of changes to financial policies and are properly trained to comply with the policies

Improve endowment policies—October 2010, p. 118

We recommend that the University of Lethbridge improve its endowment policies and procedures by:

- clarifying its goals for preserving the real value of endowments, and how it plans to achieve this
- tracking investment income between amounts for preserving the real value of investments and amounts available for spending

AUDITOR GENERAL *Alberta*

Glossary

Report of the Auditor General of Alberta—March 2012

Glossary

Accountability — In governance, the responsibility of an organization (government, ministry, department or other entity) to:

- report results (what they spent, and what they achieved)
- compare results with plans, budgets or goals
- explain any difference between the actual and expected results

Government accountability allows Albertans to decide whether the government is doing a good job. They can compare the costs and benefits of government action: what it spends, what it tries to do (goals) and what it actually does (results).

Accrual basis of accounting — A way of recording financial transactions that puts revenues and expenses in the period when they are earned and incurred.

Adverse auditor's opinion — An auditor's opinion that things audited do not meet the criteria that apply to them.

Assurance — An auditor's written conclusion about something audited. Absolute assurance is impossible because of several factors, including the nature of judgement and testing, the inherent limitations of control and the fact that much of the evidence available to an auditor is only persuasive, not conclusive.

Attest work, attest audit — Work an auditor does to express an opinion on the reliability of financial statements.

Audit — An auditor's examination and verification of evidence to determine the reliability of financial information, to evaluate compliance with laws or to report on the adequacy of management systems, controls and practices.

Auditor — A person who examines systems and financial information.

Auditor's opinion — An auditor's written opinion on whether things audited meet the criteria that apply to them.

Auditor's report — An auditor's written communication on the results of an audit.

Business case — An assessment of a project's financial, social and economic impacts. A business case is a proposal that analyzes the costs, benefits and risks associated with the proposed investment, including reasonable alternatives. The province has issued business case usage guidelines and a business case template that departments can refer to in establishing business case policy.

Capital asset — A long-term asset.

COBIT — Abbreviation for Control Objectives for Information and Related Technology. COBIT provides good practices for managing IT processes to meet the needs of enterprise management. It bridges the gaps between business risks, technical issues, control needs and performance measurement requirements.

Criteria — Reasonable and attainable standards of performance that auditors use to assess systems or information.

Cross-ministry — The section of this report covering systems and problems that affect several ministries or the whole government.

Crown — Government of Alberta.

Deferred contributions — See "Restricted contributions."

Glossary

Deferred maintenance — Any maintenance work not performed when it should be. Maintenance work should be performed when necessary to ensure capital assets provide acceptable service over their expected lives.

Enterprise risk management (ERM) — The systems and processes organizations use to identify and manage risks within an organization so they can achieve their goals and objectives. An ERM creates linkages between significant business risks and possible outcomes so that management can make informed decisions. An ERM framework helps organizations identify risks and opportunities, assess them for likelihood and magnitude of impact, and determine and monitor the organization's responses and actions. A risk-based approach to managing an enterprise includes internal controls and strategic planning.

Enterprise resource planning (ERP) — Abbreviation for enterprise resource planning. ERPs integrate and automate all data and processes of an organization into one comprehensive system. ERPs may incorporate just a few processes, such as accounting and payroll, or may contain additional functions such as accounts payable, accounts receivable, purchasing, asset management, and/or other administrative processes. ERPs achieve integration by running modules on standardized computer hardware with centralized databases used by all modules.

Exception — Something that does not meet the criteria it should meet—see "Auditor's opinion."

Expense — The cost of a thing over a specific time.

IFRS — International Financial Reporting Standards (IFRS) are global accounting standards, adopted by the Accounting Standards Board of the Canadian Institute of Chartered Accountants. They are required for government business enterprises for fiscal years beginning on or after January 1, 2011.

GAAP — Abbreviation for "generally accepted accounting principles," which are established by the Canadian Institute of Chartered Accountants. GAAP are criteria for financial reporting.

Governance — A process and structure that brings together capable people and relevant information to achieve goals. Governance defines an organization's accountability systems and ensures effective use of public resources.

Government business enterprise — A commercial-type enterprise controlled by government. A government business enterprise primarily sells goods or services to individuals or organizations outside government, and is able to sustain its operations and meet its obligations from revenues received from sources outside government.

Internal audit — A group of auditors within a ministry (or an organization) that assesses and reports on the adequacy of the ministry's internal controls. The group typically reports its findings directly to the deputy minister or governing board. Internal auditors need an unrestricted scope to examine business strategies, internal control systems, compliance with policies, procedures, and legislation, economical and efficient use of resources and effectiveness of operations.

Internal control — A system designed to provide reasonable assurance that an organization will achieve its goals. Management is responsible for an effective internal control system in an organization, and the organization's governing body should ensure that the control system operates as intended. A control system is effective when the governing body and management have reasonable assurance that:

- they understand the effectiveness and efficiency of operations
- internal and external reporting is reliable
- the organization is complying with laws, regulations and internal policies

Management letter — Our letter to the management of an entity that we have audited. In the letter, we explain:

1. our work
2. our findings
3. our recommendation of what the entity should improve
4. the risks if the entity does not implement the recommendation

We also ask the entity to explain specifically how and when it will implement the recommendation.

Material, materiality — Something important to decision makers.

Misstatement	A misrepresentation of financial information due to mistake, fraud or other irregularities.
Outcomes	The results an organization tries to achieve based on its goals.
Outputs	The goods and services an organization actually delivers to achieve outcomes. They show "how much" or "how many."
Performance measure	Indicator of progress in achieving a goal.
Performance reporting	Reporting on financial and non-financial performance compared with plans.
Performance target	The expected result for a performance measure.
PSAB	Abbreviation for Public Sector Accounting Board, the body that sets public sector accounting standards.
PSAS	Abbreviation for public sector accounting standards, which are applicable to federal, provincial, territorial and local governments.
Qualified auditor's opinion	An auditor's opinion that things audited meet the criteria that apply to them, except for one or more specific areas—which cause the qualification.
Recommendation	A solution we—the Office of the Auditor General of Alberta—propose to improve the use of public resources or to improve performance reporting to Albertans.
Restricted contributions	Canadian accounting standards for not-for-profit organizations require externally restricted contributions to be accounted for by reporting the value of contributions as liabilities until the stipulations are met, after which they are recognized as revenue. Externally restricted contributions for which the stipulations have not been met are called "deferred contributions." The purpose of this accounting is to provide readers of the financial statements with useful information about how management has used resources provided to them and whether or not they have complied with stipulations imposed by donors.
Review	Reviews are different from audits in that the scope of a review is less than that of an audit and therefore the level of assurance is lower. A review consists primarily of inquiry, analytical procedures and discussion related to information supplied to the reviewer with the objective of assessing whether the information being reported on is plausible in relation to the criteria.
Risk	Anything that impairs an organization's ability to achieve its goals.
Risk management	Identifying and then minimizing or eliminating risk and its effects.
Sample	A sample is a portion of a population. We use sampling to select items from a population. We perform audit tests on the sample items to obtain evidence and form a conclusion about the population as a whole. We use either statistical or judgemental selection of sample items, and we base our sample size, sample selection and evaluation of sample results on our judgement of risk, nature of the items in the population and the specific audit objectives for which sampling is being used.
Standards for systems audits	Systems audits are conducted in accordance with the assurance and value-for-money auditing standards established by the Canadian Institute of Chartered Accountants.
Systems (management)	A set of interrelated management control processes designed to achieve goals economically and efficiently.
Systems (accounting)	A set of interrelated accounting control processes for revenue, spending, preservation or use of assets and determination of liabilities.

Systems audit

To help improve the use of public resources, we audit and recommend improvements to systems designed to ensure value for money.

Paragraphs (d) and (e) of subsection 19(2) of the *Auditor General Act* require us to report every case in which we observe that:

- an accounting system or management control system, including those designed to ensure economy and efficiency, was not in existence, or was inadequate or not complied with; or
- appropriate and reasonable procedures to measure and report on the effectiveness of programs were not established or complied with.

To meet this requirement, we do systems audits. Systems audits are conducted in accordance with the auditing standards established by the Canadian Institute of Chartered Accountants.

First, we develop criteria (the standards) that a system or procedure should meet. We always discuss our proposed criteria with management and try to gain their agreement to them. Then we do our work to gather audit evidence. Next, we match our evidence to the criteria. If the audit evidence matches all the criteria, we conclude the system or procedure is operating properly. But if the evidence doesn't match all the criteria, we have an audit finding that leads us to recommend what the ministry must do to ensure that the system or procedure will meet all the criteria. For example, if we have five criteria and a system meets three of them, the two unmet criteria lead to the recommendation.

A systems audit should not be confused with assessing systems with a view to relying on them in an audit of financial statements.

Unqualified auditor's opinion

An auditor's opinion that things audited meet the criteria that apply to them.

Unqualified review engagement report

Although sufficient audit evidence has not been obtained to enable us to express an auditor's opinion, nothing has come to our attention that causes us to believe that the information being reported on is not, in all material respects, in accordance with appropriate criteria.

Value for money

The concept underlying a systems audit is value for money. It is the "bottom line" for the public sector, analogous to profit in the private sector. The greater the value added by a government program, the more effective it is. The fewer resources used to create that value, the more economical or efficient the program is. "Value" in this context means the impact that the program is intended to achieve or promote on conditions such as public health, highway safety, crime or farm incomes. To help improve the use of public resources, we audit and recommend improvements to systems designed to ensure value for money.

Other resources

The Canadian Institute of Chartered Accountants (CICA) produces a useful book called, *Terminology for Accountants*. They can be contacted at CICA, 277 Wellington Street West, Toronto, Ontario, Canada M5V 3H2 or www.cica.ca.

Office of the Auditor General of Alberta
8th Floor, 9925 – 109 Street NW
Edmonton, Alberta, Canada T5K 2J8

Phone: 780.427.4222
Fax: 780.422.9555
Email: info@oag.ab.ca

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